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E-COMMERCE NEWS

Supply chain gets cold cuts

Subway shops innovate to cut supply expenses

By Stephanie Wilkinson, [eWEEK](#)
July 17, 2000 12:00 AM ET

Since the opening of its first franchise in 1974, Subway has grown to be the second largest **fast-food chain**, after McDonald's Corp., largely by doing things differently. In place of fried meats and grease-laden French fries, Subway focuses on freshly made sandwiches of lean meat and vegetables. Now, in the best company tradition, Subway franchisees have banded in an effort to cut the fat from their extended supply chain.

The Independent Purchasing Cooperative, a collective of franchisees formed in 1990, has just launched Phase 1 of a three-part **supply chain** extranet, called IPCnet, which will eventually stretch from "seed to store," said Janet Risi, president of IPC, in Miami. The ingredients are already in place to help IPC squeeze an estimated \$40 million per year out of the cost of **food procurement** and distribution—a prospect that's making many mouths water.

"Private extranets that connect trading partners for improving visibility of data can cut waste along the **chain** and improve corporate revenues 2 to 8 percent," noted Lora Cecere, an analyst at Gartner Group Inc., in Stamford, Conn. "Suppliers become more agile.

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responding more quickly to their trading partners upstream, improving their customer service and making sure goods are at the right place at the right time."

IPCnet didn't happen overnight, though. It took years to identify the processes that could be automated. Then Risi had to make sure all suppliers were with the program and that the IPC board of directors was sold on the considerable expense necessary to build the system and thereby realize the savings of greater efficiency.

Extranet trims purchasing fat

Organization: Independent Purchasing Cooperative, a Miami-based collective of owners of 14,000 Subway sandwich shops.

Problem: With each franchisee responsible for managing the purchasing of its own supplies, Subway store owners were not able to take advantage of their combined \$2 billion annual purchasing power. Purchasing processes were also often inefficient.

Solution: Build IPCnet, a B2B extranet allowing franchisees to coordinate and consolidate their purchasing online.

Result: With Phase 1 of the deployment complete, IPC expects to cut \$40 million per year off its franchisees' purchasing and distribution costs.

Prior to the formation of IPC, Subway franchisees were largely left on their own to find suppliers, negotiate prices and procure products. But in 1990, a group of franchisees hired Risi, then a food service procurement consultant, to do an efficiency evaluation. "Many stores were purchasing from local produce suppliers, for instance, believing that that was the best way to go, when, in fact, they weren't necessarily getting the highest quality or the best price," she said.

When Risi pointed out the myriad inefficiencies, the Subway franchisees decided to form IPC and to hire her as its president. That way, the group could flex its muscles as a big-time buyer of everything from tuna fish to plastic gloves, and it could create a single organization to study the entire purchasing process, with close links to Subway headquarters in Milford, Conn.

No easy-bake solution

From 1995 to early 1999, IPC execs traveled the country gathering information on suppliers, creating specifications for the products each store uses and negotiating contracts. Only then could they begin to draft the request for proposal for Phase 1 of IPCnet. In 1999, IPC signed on with GE Global Exchange Services, or GXS—the Gaithersburg, Md., business-to-business arm of General Electric Corp.—to help build

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Phase 1, which connects the 92 approved Subway food and dry goods suppliers with Subway's 68 distributors.

Although GE has been helping companies connect with their trading partners for three decades, primarily via EDI (electronic data interchange) technology, the IPC contract presented unique challenges, said Bob Brooks, vice president of marketplace solutions for GXS. "The biggest challenge was helping IPC translate the unique physical processes involved in procurement into e-commerce terms," Brooks said.

"We had partners that spanned the gamut, from big players like Kraft [Foods Inc.] and Pillsbury [Co.] and Tyson [Foods Inc.]—players who know EDI and have knowledgeable IT staffs—down to regional produce suppliers who may be equipped with only a few stand-alone PCs," said George Labelle, director of IS at IPC. "We needed to create a way for everyone to provide us the information we need in a format that's simple for them and reliable for us."

In response, Brooks' team at GXS threw their energies into a two-pronged solution. First, they devised a list of a half-dozen ways that suppliers could provide invoice data electronically to IPCnet, ranging from traditional EDI formats to FTPing a flat file to HTML uploads onto the IPC Web site. Suppliers could choose one or more options and could switch between them at their convenience. Next, GXS set up prelaunch ramp-up meetings with suppliers in April.

By the start of this month, all the ingredients of IPCnet had been assembled. Suppliers began uploading the invoices they send to IPC distributors onto IPCnet, hosted at a GXS facility in Cincinnati. The first step in the system is to compare the invoices against electronic versions of their contracts.

Once compliance has been verified, the data from the invoice goes into a back-end Oracle Corp. database. From there, IPC execs in Miami can mine the information at will using browser-based query tools to create reports on product flow and cost in search of ever-greater efficiencies.

Selling up

Risi and Labelle are pleased with Phase 1. Risi admitted that IPCnet was "not inexpensive" to create. "I had to go to the board to warn them that this project would take the expense side of the balance sheet way up," she said. "But we are expecting significant returns—2 to 3 percent savings on the \$2 billion per year Subway stores spend on food and supplies."

But IPCnet's value isn't limited to cost-cutting. There's another big benefit to making the supply chain more

efficient: safety.

"At least as important as the cost savings here is the process controls the system has put in place," Risi said. "The No. 1 issue in our line of work isn't actually cost, it's food safety. No one can afford the fallout from spoiled food. IPCnet ensures that we're tracking food carefully and know everything about it, right down to where the turkey is at 3 in the morning."

Finishing touches

Phases 2 and 3 are in the works. Phase 2 will capture the invoices sent twice a week from the distributors to each of the 14,000 Subway stores. Labelle said the IPC expects to sign a project development contract for Phase 2 this September. The challenges of Phase 2 are in some ways greater than Phase 1: The volume of invoices will be a factor, as is the fact that many of the distributors are less technologically advanced than the majority of the food suppliers.

Phase 3 is down the pike, Labelle said—probably two years away. Each Subway store will then be able to order from suppliers online, completing the e-procurement loop. "I don't like to speculate on how that project will look," he said. "Given the pace of change in the IT world, it could be some format we can't even imagine right now."

Stephanie Wilkinson is a free-lance writer in Lexington, Va.

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